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## **Colombia**

### **SUGAR ANNUAL**

## **Colombian Sugar Market Outlook**

**Approved By:**

Elizabeth Mello, Agricultural Attache

**Prepared By:**

Leonardo Pinzon, Agricultural Specialist

**Report Highlights:**

Colombian sugar production is expected to decline by 195,000 tons in MY 2008/2009 but production should recover to 2.2 million tons in MY 2009/2010 as production returns to normal. Colombian sugar production is already below historical levels due to the increase of sugarcane use for ethanol production and higher than normal rainfall which has slowed production.

**Executive Summary:**

Colombian sugar production has been declining since late 2005 due to an increasing amount of sugarcane dedicated to ethanol production. Ethanol production reached its capacity in CY 2007 at 1.2 million liters per day at five distilleries owned by five sugar mills. Colombia has little or no area for sugarcane expansion in the major sugar and ethanol producing region of Cauca Valley. In MY 2007/2008, sugarcane production was affected by a heavier and longer rainy season that reduced sugarcane production and processing by 485,736 tons. The sugarcane workers strike affected sugarcane production and the volume processed between September 2008 and January 2009 declined 1.6 million tons compared to the same period a year before.

Due to the two-month sugarcane workers' strike, MY 2008/2009 sugar production numbers will fall 195,000 tons from the previous MY to 2 million tons. A recovery is expected for the Colombian sugar industry, with production forecasted to reach 2.2 million tons in MY 2009/2010.

Colombia remains a net sugar exporting country, however, due to the cane workers strike MY 2008/2009 sugar exports are expected to decline by 31,000 tons due to a reduction in sugar production. Post's MY 2009/2010 forecast is for a recovery to 660,000 tons of sugar exports as the market recovers.

**Commodities:**

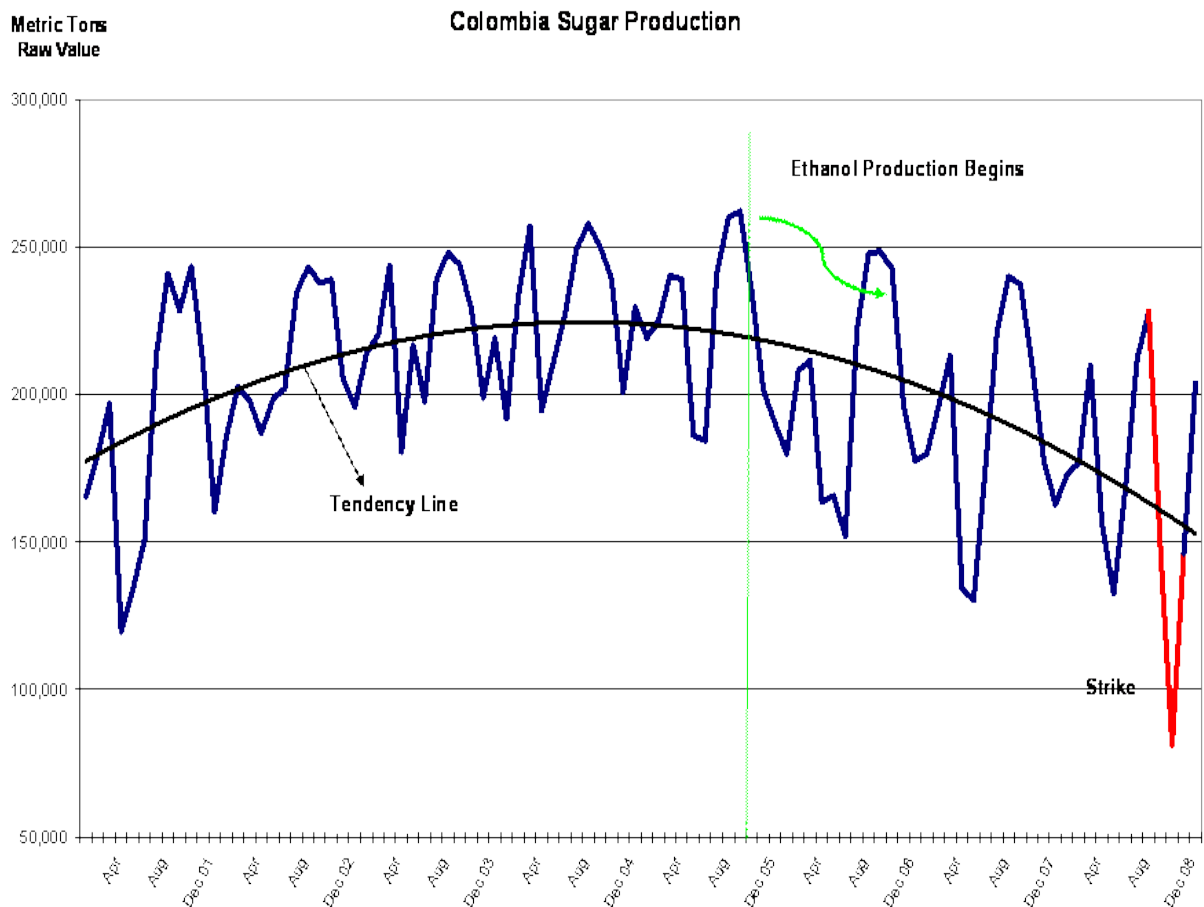
Sugar Cane for Centrifugal

**Production:**

Colombian areas of sugarcane for sugar and ethanol production are located in the geographical area of the Cauca River Valley where the sugar mills and ethanol facilities operate. The area planted in this valley with sugarcane reached 200,000 hectares, which is considered all of the total land available for sugarcane under mechanized production. The constraint of no land availability for sugarcane for sugar production has led to increases in production efficiencies. The graph below shows that increases in sugar production reached a peak in 2004 due to improvements in processing sugarcane. Ethanol production began to compete with sugar production in late 2005 and ethanol production reached capacity in 2007 due to the limited number of ethanol plants. Since then, increases in ethanol production have not had a large impact on sugar production due to yield gains in ethanol production. Increases in ethanol production capacity have been put on hold due to fluctuating petroleum prices.

Colombian sugar production is expected to decline by 195,000 tons to 2.05 million tons in MY 2008/2009, completing three consecutive years of declining sugar production. Adverse weather conditions and increased ethanol production are the primary reasons for this declining production trend. In MY 2008/2009, a sugarcane cutters' strike that lasted less than two months in the first quarter exacerbated the decline in production for that year.

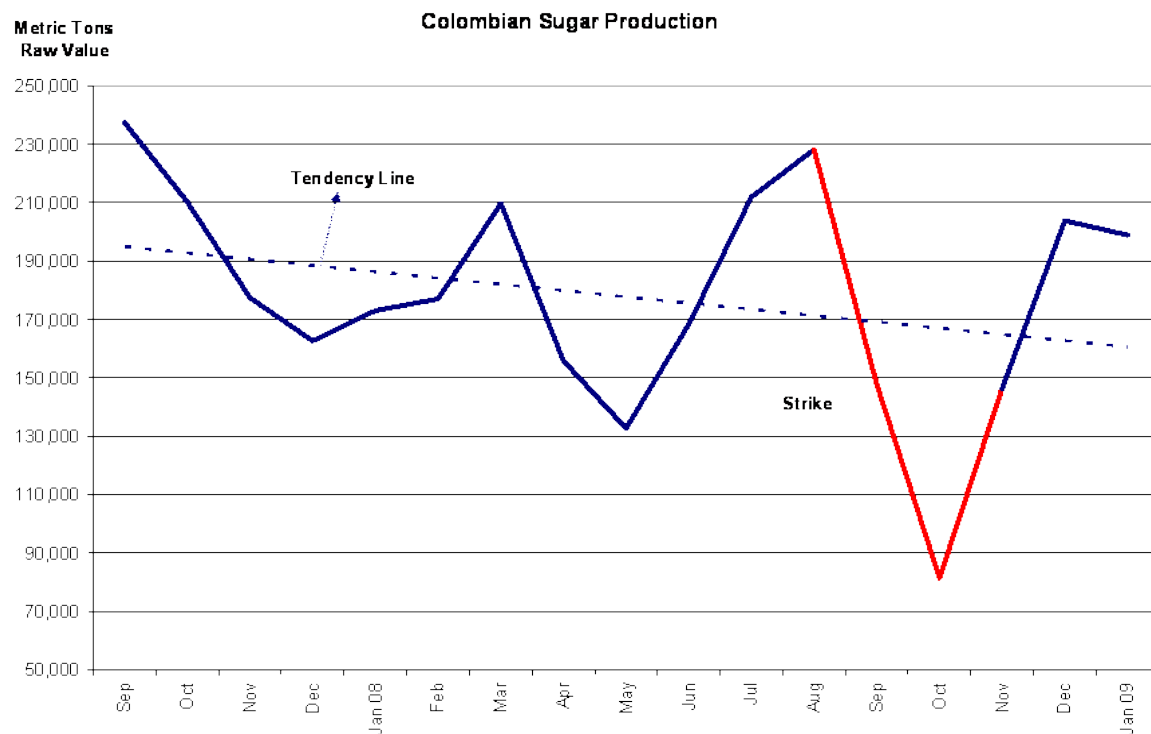
Graph 1



The graph shows the dramatic fall in sugar production during the months of September and October during the cutters' strike. A recovery in sugar production is forecast for upcoming MY 2009/2010, assuming normal growing conditions and no further labor problems.

The amount of sugarcane processed declined over 485,000 tons to 21.06 million tons in MY 2007/2008 due to stronger rainfall. In MY 2008/2009, a reduction of over 3.2 million tons of total sugarcane processed is expected due to the sugarcane workers' strike.

Graph 2



Source: Sugar Producers Association - Asocaña

Colombia is the second largest **non-centrifugal sugar (panela)** producer in the world after India. Colombian sugarcane production area for panela is estimated at 260,000 hectares with a calculated output of 1.58 million tons of panela. Post expects no changes in panela's production for 2009. Panela production is distributed among 70,000 farms, and employs approximately 120,000 subsistence farmers located throughout the country.

A project has been proposed to use sugarcane used for panela for ethanol production, but it currently faces some problems due to the difficulty in reaching economies of scale, since most producers of panela are small scale producers, and the variable topography which also makes mechanized production difficult. However, the Government is supporting two small pilot projects for ethanol production in panela-producing regions to evaluate the potential of producing ethanol versus panela.

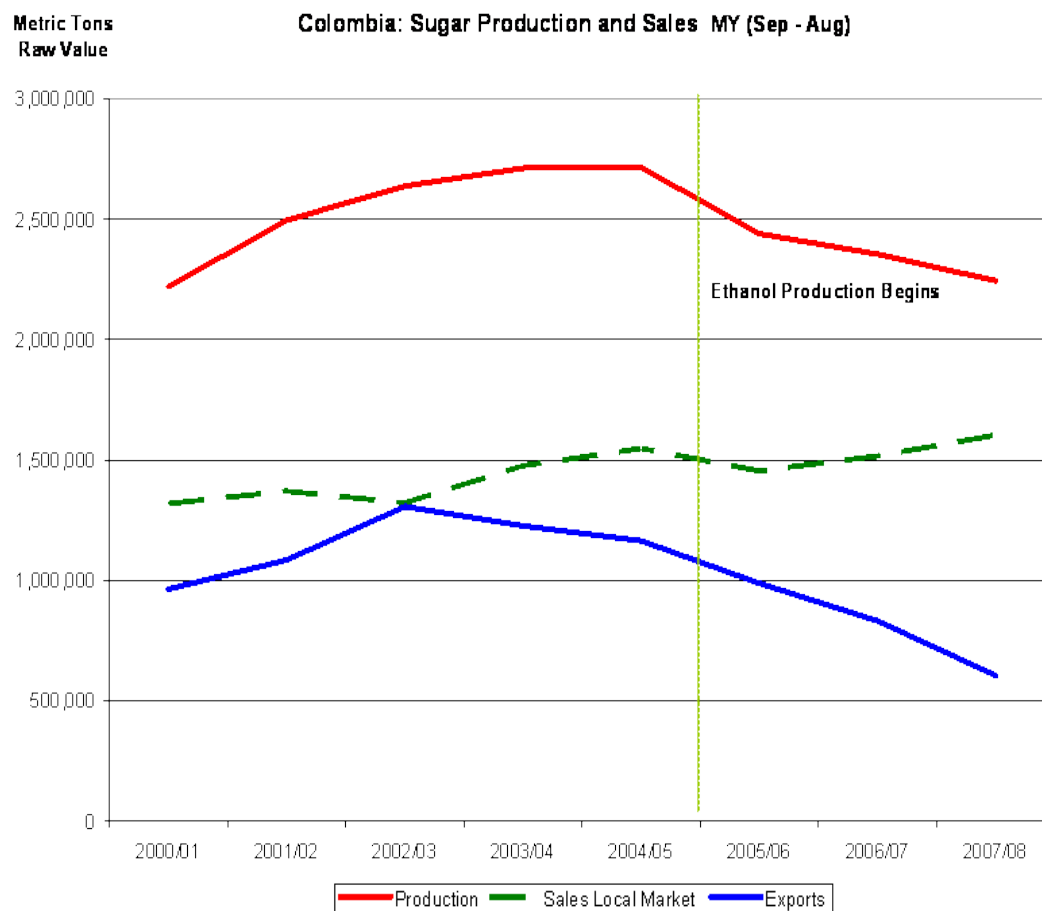
According to the Independent Sugarcane Producer's Association, many producers are unwilling to shift contracts because the price of sugarcane for panela is much higher than the prices for sugarcane used for ethanol production.

### **Consumption:**

In MY 2008/2009, Colombian sugar consumption is forecast at 1.58 million tons, down 30,000 tons from the previous year as a result of the slowdown in the economy. It is expected to increase to 1.6 million tons in 2009/2010 as the economy recovers. Consumption has been led by increasing demand from the confectionary sector to meet increased exports of processed food products. Sugar mills will continue to prioritize the

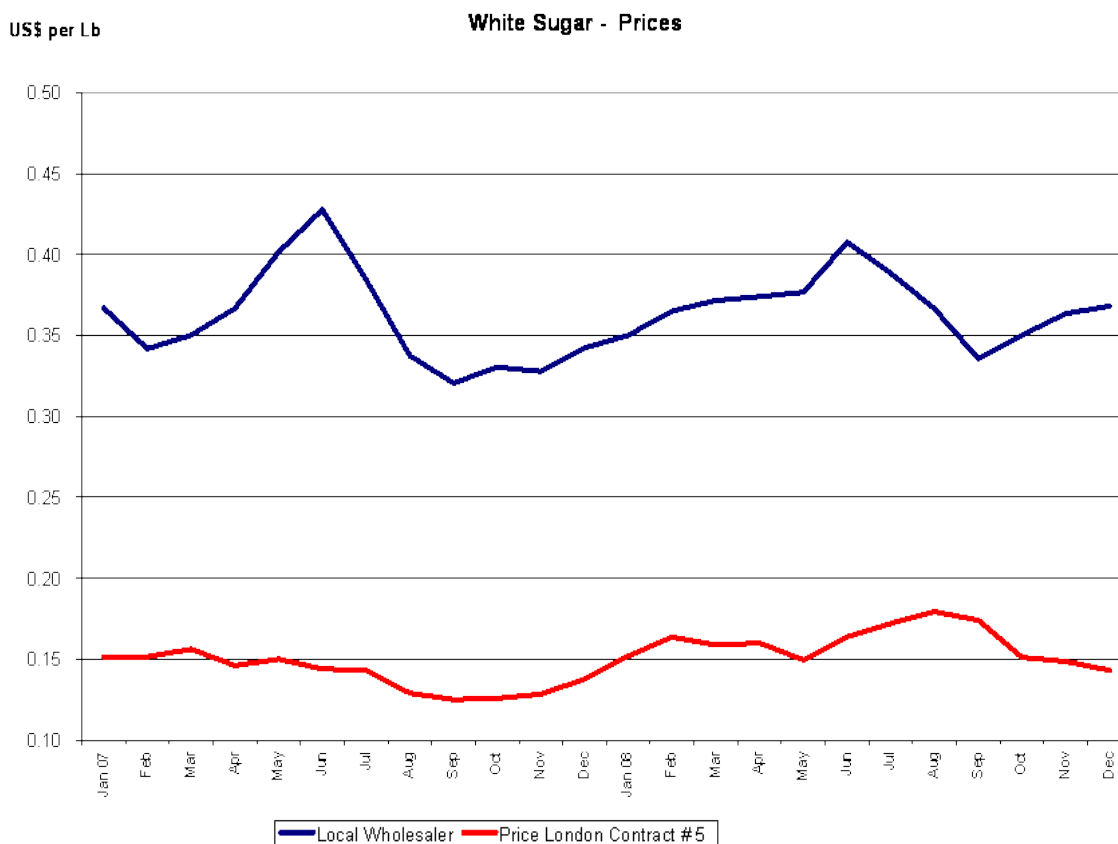
Colombian refined sugar market because of higher prices and higher returns compared to raw sugar exports.

Graph 3



## Prices

The price for local sugar in Colombia is mainly based on international sugar prices adjusted to the local market. The New York Commodity Exchange price is the basis for raw sugar and the London Sugar Exchange price is the basis for refined or white sugar, to which local transportation costs are added.



The Colombian Sugar Producers Association (Asocaña) operates a Price Stabilization Fund (PSF) for sugar. The PSF receives contribution from sales to higher priced markets, such as the U.S. sugar quota and local market, while those who sell to the lower-priced markets, such as the export market, receive a compensation from the fund. In the end, millers' income is equilibrated, representing total sales at an average price lower than the U.S. sugar quota or local prices but higher than export prices.

### Trade:

Colombian sugar exports have been declining since MY 2002/2003 due to expanding local demand of sugar for exports of processed food products. Ethanol production also reduced sugarcane availability for sugar production. For MY 2008/2009, a decline in sugar exports by 31,000 tons to 630,000 tons is expected. Colombian sugar producers have strengthened their efforts in order to increase exports of higher priced refined sugar. For this reason, refined sugar exports have been gaining export market share. In MY 2007/2008 refined sugar accounted for 78 percent of total export market share, up from 61 percent in MY 2005/2006. In MY 2009/2010, Colombian sugar exports are forecast to increase, assuming the world economy begins a recovery.

In MY 2007/2008, Colombian sugar exports to Chile reached 175,684 tons, up 62,782 tons from the previous year, making Chile the number one destination for Colombian sugar exports. Exports to Perú declined to 133,330 tons from 187,546 tons. Chile represented 27 percent of total Colombian exports and Perú 20 percent in MY 2007/08. Exports to the

United States fell for the second consecutive year by 52 percent to 28,263 tons in MY 2007/08, barely above the sugar quota of 24,000 tons assigned for fiscal year 2007.

Colombia's sugar imports declined to 102,891 tons in MY 2007/2008, since the decline in exports created more availability of product on the domestic market. Brazil supplied 81,822 tons, or 80 percent of total Colombian imports, followed by Bolivia. Imports from Brazil are granted a duty preference compared to other suppliers under the Regional Preferences of the Latin America Integration Association (LAIA). Imports are expected to increase in MY 2008/2009, in spite of the expected reduction in consumption due to the aforementioned strike that significantly reduced sugar production.

**Stocks:**

The government does not have programs or incentives for sugar mills to keep inventories. The sugar industry holds approximately one month of total domestic demand, which is considered enough inventory to meet local and export needs. Private sector sugar stocks/working inventories are projected to decline to 125,000 tons in MY 2008/09, and recover in MY 2009/10.

**Policy:**

**Sugar Price Stabilization Fund**

Sugar exporters receive a payment for sugar exports derived from a "price stabilization fund" that obtains its funding from a tax applied to domestic sugar sales. Thus, sugar mills receive an average price that is somewhere between the international sugar price and the local market price. The fund was established by the Ministry of Agriculture and has been in operation since January 2001.

**Price Band**

Under Andean Community regulations, sugar imports from other Andean Community countries are allowed duty-free entry into the Colombian market. Imports from outside the Andean Community are subject to a variable duty under the Andean price band system. The basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 20 percent.

The Andean Community revises the band of prices, ceiling and floor, annually every April. The duty adjustment is made based on whether a reference price is above or below the ceiling and floor price respectively. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price band, the import duty is the basic tariff rate, 20 percent in the case of sugar, applied to the invoice value. When the reference price falls below the floor price, a variable surcharge based upon the difference between the floor price and the reference price is assessed. Conversely, when the reference price exceeds the ceiling price, a reduction is made to the applied duty based upon the difference between the reference and the ceiling price.



The Andean Community set the price band to be applied for the period April 2008 to March 2009 as follows, which is an increase from the year before as noted below:

<b><i>Andean Community Price Band April 2009 to March 2010</i></b>				
	<b><i>Floor Price</i></b> \$ per ton <i>April / March</i>		<b><i>Ceiling Price</i></b> \$ per ton <i>April / March</i>	
	<b>2008/09</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2009/10</b>
<b>Raw Sugar</b>	253	277	323	345
<b>Refined Sugar</b>	344	374	427	452
<b>Source: Andean Community</b>				

For the first two weeks of April 2008, reference prices for raw and refined sugar were set at \$310/ton and \$414/ton respectively. Thus, Colombia's current total effective duty, which is the basic duty plus surcharge, on imports of raw sugar is 20 percent given that the reference price for raw sugar is within the ceiling and floor price. The duty for refined sugar is equivalent to 20 percent of the invoice price per ton, since the reference price is currently within the price band.

**Colombian Trade Promotion Act (CTPA)**– Colombia and the United States signed a free trade agreement in November 2006. Under this agreement the price band duty system will be removed for imports from the United States. The CTPA is pending congressional approval in the United States. The agreement set a TRQ of 10,500 tons for glucose, which includes high-fructose corn syrup that increases 5 percent annually for 10 years. At the same time, the basic import duty for imports above the TRQ will be reduced from 20 percent by 2 percent annually until it is eliminated at the end of the 10-year phase-out period.

### **Andean Community and Mercosur**

Andean Community members (Peru, Ecuador and Bolivia) have free access to Colombia's sugar market, as does Colombia to each of their sugar markets. Under the Colombia/Mercosur free trade agreement, which entered into effect in February 2005, sugar was largely excluded. Colombia maintains the price band system and there was no agreement reached on when tariff reductions would begin. However, Colombia continues to grant duty preferences under previous bilateral agreements such that Mercosur members pay only a percentage of the basic duty rate. The actual duties paid are as follows: Argentina and Brazil 17.6 percent for raw sugar and refined sugar; Paraguay 13.2 percent on raw and refined sugar; and Uruguay 16 percent on raw and refined sugar.

### **Production, Supply and Demand Data Statistics:**

Sugar, Centrifugal Colombia	2008 2007/2008			2009 2008/2009			2010 2009/2010	
	Market Year Begin: Sep 2007			Market Year Begin: Sep 2008			Market Year Begin: Sep 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	
			Data			Data	Jan	Data
Beginning Stocks	98	98	98	93	93	170		125
Beet Sugar Production	0	0	0	0	0	0		0
Cane Sugar Production	2,360	2,360	2,245	2,360	2,360	2,050		2,200
Total Sugar Production	2,360	2,360	2,245	2,360	2,360	2,050		2,200
Raw Imports	0	0	0	0	0	0		0
Refined Imp.(Raw Val)	190	190	103	190	190	120		110
Total Imports	190	190	103	190	190	120		110
Total Supply	2,648	2,648	2,446	2,643	2,643	2,340		2,435
Raw Exports	220	220	149	210	210	140		160
Refined Exp.(Raw Val)	720	720	512	730	730	490		500
Total Exports	940	940	661	940	940	630		660
Human Dom. Consumption	1,610	1,610	1,610	1,610	1,610	1,580		1,600
Other Disappearance	5	5	5	5	5	5		5
Total Use	1,615	1,615	1,615	1,615	1,615	1,585		1,605
Ending Stocks	93	93	170	88	88	125		170
Total Distribution	2,648	2,648	2,446	2,643	2,643	2,340		2,435
TS=TD			0			0		0

Sugar Cane for Centrifugal Colombia	2008 2007/2008			2009 2008/2009			2010 2009/2010	
	Market Year Begin: Sep 2007			Market Year Begin: Sep 2008			Market Year Begin: Sep 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	
			Data			Data	Jan	Data
Area Planted	202	0	202	202	202	202		202
Area Harvested	185	0	183	185	185	157		185
Production	21,980	0	21,100	21,200	21,200	17,900		21,000
Total Supply	21,980	0	21,100	21,200	21,200	17,900		21,000
Utilization for Sugar	18,330	0	17,392	17,500	17,500	15,785		17,300
Utilizatn for Alcohol	3,650	0	3,708	3,700	3,700	2,115		3,700
Total Utilization	21,980	0	21,100	21,200	21,200	17,900		21,000
TS=TD			0			0		0